Agenda Date: December 30, 2010

Item Numbers: A1, A2 and A3

**Dockets: UE-101769**

**UG-101770**

**UE-100176**

Company: Avista Corporation

Staff: Deborah Reynolds, Regulatory Analyst

David Nightingale, Senior Regulatory Engineering Specialist

Ryan Dyer, Regulatory Analyst

# Recommendation

Take no action, allowing Avista Corporation’s (Avista or company) proposed electric and natural gas energy efficiency tariff revisions to Schedules 90 and 190 in Dockets UE-101769 and

UG-101770 to become effective January 1, 2011, by operation of law.

# Background

Avista is currently operating its energy efficiency programs under conditions approved by the Washington Utilities and Transportation Commission (commission) pursuant to RCW 19.285 and WAC 480-109.[[1]](#footnote-1) The company’s biennial 2010-2011 electric conservation target is 128,603 MWh with at least 125,982 MWh of non-fuel-conversion resources.[[2]](#footnote-2) The 2010 natural gas target is 1,385,606 therms, and the 2011 natural gas target is 1,639,317 therms.[[3]](#footnote-3) Both the electric and natural gas targets are based on an assessment of the conservation potential in its service area.

On November 1, 2010, the company timely filed three items: its annual 2011 DSM (Demand-Side Management) Business Plan (Annual Plan) in Docket UE-100176; revised Sheet 90A, Schedule 90, electric energy efficiency tariff in Docket UE-101769; and revised Sheet 190A, Schedule 190, natural gas energy efficiency tariff in Docket UG-101770. On December 21, 2010, the company filed a revised Annual Plan as requested by staff. Through these filings, Avista is proposing changes to its electric and gas conservation programs. The proposed changes seek to increase the budgeted expenditures for January 1, 2011, through December 31, 2011, and make a number of minor program changes. The company has developed these filings and a course of action for their conservation programs in consultation with their External Energy Efficiency Board (EEE Board).

Avista’s Annual Plan needs to include any changes to program details,[[4]](#footnote-4) and an annual budget with reasonable program detail that shows planned expenses and the resulting projected energy savings. The budget must be presented in a detailed format with a summary page indicating the proposed budget and savings levels for each conservation program, with subsequent supporting spreadsheets providing further detail for each program and line item shown in the summary sheet (Order 01, ¶ 60).

Avista serves approximately 233,000 Washington electric customers in Adams, Asotin, Ferry, Franklin, Grant, Lincoln, Spokane, Stevens, and Whitman counties, and approximately 146,000 Washington natural gas customers in Adams, Asotin, Ferry, Franklin, Grant, Klickitat, Lincoln, Skamania, Spokane, Stevens, and Whitman counties. All customers are affected by these changes.

***Electric Conservation Program Changes***

Avista is proposing a 21 percent increase in its one-year electric conservation budget, increasing from $12.4 million to $15.0 million (Annual Plan, pp. 40). The company projects electric conservation acquisition of 60,151 MWh for the 2011 time period, a decrease of about 11 percent as compared with the 2010 business plan projected savings (Annual Plan, pp. 26). The sector-specific savings target has increased about 16 percent for nonresidential programs, but decreased about 31 percent for residential programs. Company programs are expected to deliver 52,793 MWh. The remaining 7,358 MWh will come from market transformation programs through the Northwest Energy Efficiency Alliance (NEEA). Savings from NEEA are projected to decrease 45 percent (Annual Plan, pp. 26).

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| **Electric Efficiency Services** | **2010 Budget** | **2011 Budget** | **Percent Change** |
| Residential | $3,750,000 | $3,464,000 | -8% |
| Nonresidential | $5,588,000 | $6,769,000 | +21% |
| Regional (NEEA) | $1,460,000 | $1,523,000 | +4% |
| Support | $1,588,000 | $2,165,000 | +36% |
| EM&V | Unknown | $1,091,000 | N/A[[5]](#footnote-5) |
| **Total** | **$12,385,000** | **$15,013,000** | **+21%** |

The company’s analysis of its proposed electric portfolio cost-effectiveness results in a Program Administrator Cost test ratio of 3.1, and a Total Resource Cost test ratio of 1.8.[[6]](#footnote-6) All of the programs are funded through the company’s conservation rider Schedule 91. The company will make a filing in May, 2011, that will incorporate the increased budget submitted with this filing into the company’s tariff.

***Natural Gas Conservation Program Changes***

Avista is proposing a four percent increase in its one-year natural gas conservation budget, increasing from $5.2 million to $5.4 million (Annual Plan, pp. 40). The company projects natural gas conservation acquisition of 1.4 million therms for the 2011 time period, about the same as last year’s savings (Annual Plan, pp. 31). This level of acquisition misses the target by about 15 percent. The company describes plans to implement additional cost-effective measures such as rooftop HVAC maintenance with programmable thermostats, third-party recommissioning, and radiant heat (Annual Plan, pp. 88). Staff expects that the six-month report on conservation acquisition will address whether or not these measures have been implemented and how the company is doing toward achieving its goals. Compared with the 2010 business plan, the projected level of acquisition is an increase of about 18 percent for nonresidential program therm savings, but a decrease of about 12 percent for residential program therm savings.

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| **Natural Gas Efficiency Services** | **2010 Budget** | **2011 Budget** | **Percent Change** |
| Residential | $2,767,000 | $2,769,000 | 0% |
| Nonresidential | $1,732,000 | $2,086,000 | +20% |
| Support | $737,000 | $319,000 | -57% |
| EM&V | Unknown | $273,000 | N/A[[7]](#footnote-7) |
| **Total** | **$5,236,000** | **$5,447,000** | **+4%** |

The company’s analysis of its proposed natural gas portfolio cost-effectiveness results in a Program Administrator Cost test ratio of 1.8, and a Total Resource Cost test ratio of 1.0. All of the natural gas programs are funded through the company’s conservation rider Schedule 191. The company will make a filing in May, 2011, that will incorporate the budget submitted with this filing into the company’s tariff.

# Discussion

The company timely filed its Annual Plan. Staff requested and the company provided budget details (Order 01, ¶ 60) and program-by-program incentive details (Order 01, ¶ 61). Staff believes the company has complied with the conditions of the order. Staff has asked the company to begin working on significant revisions to its Schedules 90 and 190, incorporating more program-by-program detail into tariff revisions to be included with the Biennial Conservation Plan filing in November, 2011.

***Public Involvement***

The company worked closely with its Advisory Group throughout 2010, particularly focusing on evaluation, measurement and verification (EM&V). Because there was so much EM&V work, staff and company availability for public involvement in program planning prior to the filing was somewhat less than would otherwise be expected. However, the company made a thorough presentation of its program plans at the November Triple E Board meeting, and expects to engage in significant public involvement during 2011 (Order 01, ¶ 59, 65).

***Allocation of Support Expenses Between Electric and Natural Gas***

The company’s Annual Plan implements a proposal to change the allocation of support expenses between electric and natural gas programs from the current btu savings proportion to a value-based allocation based on the dollar value of avoided cost (Annual Plan, pp. 34). The company provided several allocation scenarios, and staff is satisfied that the company has supported its proposal. The significant increase in electric support costs and the coinciding decrease in natural gas support costs shown in the tables above is a result of this change.

***Fuel-Conversion***

According to the company’s workpapers, fuel-conversion is expected to deliver 1,678 MWh of electric conservation savings in 2011. This is consistent with Avista’s plan that for the 2010-2011 biennium, at least 125,982 MWh out of the 128,603 MWh acquisition target will come from non-fuel-conversion resources (Order 01, ¶ 53). In addition, the company agreed to review whether standard efficiency fuel conversion should be included in the next Biennial Conservation Plan (Order 01, ¶ 65(c)). This topic will be specifically addressed with the EEE Board during 2011.

***Distribution and Generation Efficiency***

The company does not expect to complete any distribution or generation efficiency during 2011 (Annual Plan, pp. 26). Although the company does not collect money through the tariff rider to pay for distribution or generation efficiency, the Biennial Conservation Plan expected in 2011 should include the company’s plans for completing these improvements.[[8]](#footnote-8)

***Evaluation, Measurement and Verification (EM&V) Plan***

The company’s Annual Plan filing includes an EM&V Plan as envisioned by the EM&V Framework.[[9]](#footnote-9) The company is planning to spend about six percent of its 2011 conservation budget on EM&V, including independent, third-party EM&V. The three-year schedule of selected programs addresses all major programs.[[10]](#footnote-10) The EM&V function is proposed to include impact, process, market and cost test analyses. Additional work on the three-year schedule and on individual research plans will be presented to the EEE Board over the next year (Order 01, ¶ 62). The company, in its EM&V Framework, has identified a need to change one of the dates in its filing schedule. Staff expects the company to file a petition as soon as possible.

***Program Outreach***

The company’s “Every Little Bit” program (Annual Plan, pp. 30, 77) is characterized as program outreach (Order 01, ¶ 63(b)). Because its savings haven’t been measured, staff believes it also falls into the category of informational programs. The company has budgeted $700,000 for Every Little Bit in 2011, which is well within the ten percent guideline (Order 01, ¶ 63(d)). The two-year budget expected with the Biennial Conservation Plan in 2011 should have a section for these programs.

***Regional Market Transformation***

Avista expects to count approximately 7,000 MWh in market transformation savings from NEEA in 2011, including savings from codes and standards. Avista’s tariff Schedule 90 addresses market transformation very lightly. Staff has asked the company to begin preparing significantly revised and more detailed energy efficiency tariffs to be filed with the next Biennial Conservation Plan (Order 01, ¶ 61).

***Rider Fund Balances***

In its April 29, 2010, Staff Memo, staff identified the commission’s requirement from a previous general rate case order that Avista record interest on positive energy efficiency program balances as inconsistent with the subsequent enactment of the requirement to “pursue all available conservation that is cost-effective, reliable, and feasible.”[[11]](#footnote-11) Issues concerning recording of interest on fund balances should be added to Avista’s public involvement discussions before the company files its next tariff rider true-up.

***Revisions to Incentive Levels in Schedules 90 and 190***

The company is proposing to remove the incentives for projects that exceed a 13-year simple payback for non-lighting measures. Staff is satisfied that the workpapers support this change, and that the change should reduce the likelihood of individual projects affecting the portfolio total resource cost ratio. In addition, changes to program tariffs are appropriately filed as companions to the Annual Plan or Biennial Conservation Plan.

# Conclusion

Take no action, allowing Avista Corporation’s proposed electric and natural gas energy efficiency tariff revisions to Schedules 90 and 190 in Dockets UE-101769 and UG-101770 to become effective January 1, 2011, by operation of law.

1. *Wash. Utils. & Transp. Comm’n v. Avista Corp.,* Docket UE-100176, Order 01, (May 13, 2010). [Order 01] Avista agreed to apply the conditions from Docket UE-100176 to its natural gas energy efficiency programs during the filing of its natural gas rider in Docket UG-100254. [↑](#footnote-ref-1)
2. Order 01, ¶ 53. [↑](#footnote-ref-2)
3. See Avista Presentation on Natural Gas Integrated Resource Plan, Docket UG-090015, April 29, 2010. [↑](#footnote-ref-3)
4. Order 01, ¶ 64. [↑](#footnote-ref-4)
5. Evaluation, measurement and verification (EM&V) expense was formerly included in all categories, some as direct assigned cost, and some as portfolio or “Support” costs. The company separated EM&V because of the requirement to spend three to six percent of the budget on EM&V. [↑](#footnote-ref-5)
6. The Total Resource Cost test result must be greater than 1 to demonstrate cost-effectiveness. [↑](#footnote-ref-6)
7. Evaluation, measurement and verification (EM&V) expense was formerly included in all categories, some as direct assigned cost, and some as portfolio or “Support” costs. The company separated EM&V because of the requirement to spend three to six percent of the budget on EM&V. [↑](#footnote-ref-7)
8. See April 29, 2010, Staff Memo, Docket UE-100176. [April 29, 2010, Staff Memo] [↑](#footnote-ref-8)
9. See September 1, 2010, Avista compliance filing in response to *WUTC v. Avista Corporation, d/b/a Avista Utilities,* Dockets UE-090134 and UG-090135, and UG-060518 (consolidated), Order 10, December 22, 2009, ¶ 305. [↑](#footnote-ref-9)
10. See November 1, 2010, Avista compliance filing in Docket UE-100176. *UE-100176 EMV Plan Appendix Schedule.pdf* [↑](#footnote-ref-10)
11. RCW 19.285.010. See also *UTC v. Avista Corporation,* Docket Nos. UE-991606 & UG-991607 (*consolidated*), 3rd Supplemental Order, at ¶ 422 (September 29, 2000). “If the energy efficiency program expenditures exceed tariff rider collections in the future, the Company may not collect interest on the negative balance; the Company must bear the risk of undercollection of funds through the tariff rider; because the Company, not its customers, manages the energy efficiency program expenditures.” [↑](#footnote-ref-11)